

**TO:** Members of the House Revenue Committee

**FROM:** Hasina E. Squires, Special Districts Association of Oregon

**DATE:** March 14, 2013

**RE:** **Testimony in Support of House Bill 2035, 2036, 2415 & 2496**

**INTRODUCTION**

Members of the House Revenue Committee, thank you for the opportunity to appear before you today. For the record my name is Hasina Squires and I am here today on behalf of the Special Districts Association of Oregon (SDAO) to provide testimony in support of House Bills 2035, 2036, 2415 & 2496. The Special Districts Association's membership consists of approximately 950 special service districts that provide a range of services (including but not limited to water, wastewater, irrigation, parks and recreation, 9-1-1 and rural fire protection) to citizens who reside

**BACKGROUND – TAX AND FUNDING**

In 1981 the Oregon Legislature issued a mandate for statewide 9-1-1 services and instituted a 3% surcharge on subscriber's telephone lines. At that time there were over 280 Public Safety Answering Points (PSAPs) in Oregon with only a few providing basic 9-1-1 service and none provided Enhanced 9-1-1 service.

The 1991 legislature increased the surcharge to 5% and mandated Enhanced 9-1-1 service (9-1-1 caller's address and responsible police, fire and EMS provider displayed to the call-taker). However, in 1995 the 5% surcharge was converted to an approximate equivalent 75-cent surcharge to provide the 9-1-1 program with greater revenue stability and predictability. Revenue is distributed as follows:

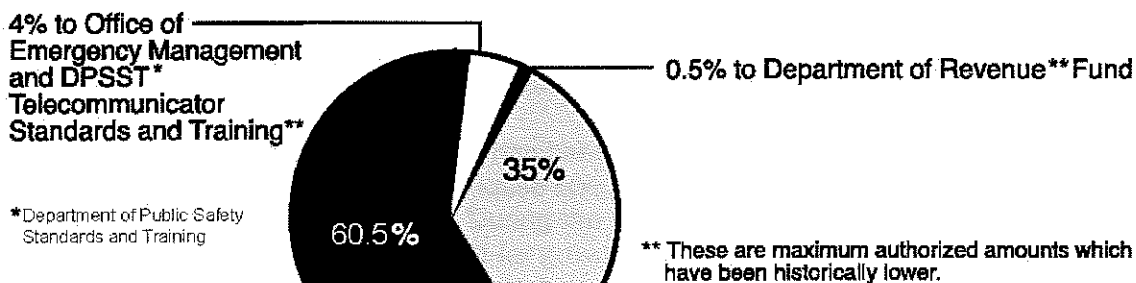
- ✓ Sixty and one-half percent (60.5%) of the revenues are distributed to counties and cities for operation of the state's 49 PSAP's. Distribution is in proportion to population, except that no county receives less than 1% of the distribution. The funds may not be used for PSAP operations unless they are directly related to 9-1-1.
- ✓ Thirty-five percent (35 %) of the revenues are managed by Oregon Emergency Management (OEM) a Division of Oregon Military Department to pay for PSAP common network services, Federal Communications Commission Phase I and II wireless services, costs associated with the Enhanced 9-1-1 program which include network, database, equipment and other costs related to providing state-wide wire line and wireless 9-1-1 services.
- ✓ Four percent (actual costs or no more than 4% maximum) of revenues may be used by the Oregon Emergency Management to pay for OEM 9-1-1 program administration and Telecommunicator training at the Department of Public Safety Standards and Training (DPSST).
- ✓ One-half percent (actual costs or no more than 0.5% maximum) of the revenues are distributed to the Department of Revenue for administrative processing cost recovery.



# The Funding of 9-1-1 Public Safety Answering Points (PSAPs) in Oregon

(2009)

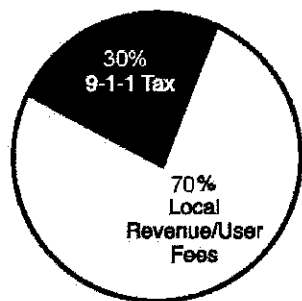
## Allocation of the 75¢ Tax on Access to 9-1-1 Services



60.5% to 9-1-1 PSAP Operations

35% to Enhanced 9-1-1 Subaccount

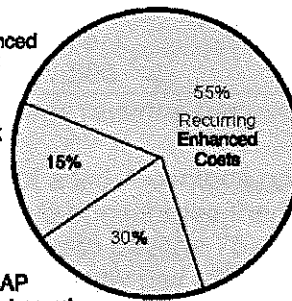
### Typical 9-1-1 PSAP Operating Costs are Funded



### Enhanced 9-1-1 Subaccount Expenditures

Future Enhanced Wireless and Wireline

- Network
- Equipment
- Mapping
- Data



- Telephone Network
- Equipment Maintenance
- Data Maintenance
- Wireless Phase I

PSAP Equipment Replacement

- Hardware
- Software

## PREPAID PHONE SERVICE

A prepaid mobile phone (also commonly referred to as pay-as-you-go, pay-as-you-talk, "pay and go", prepaid wireless, or Prepay) is a mobile phone for which credit is purchased in advance of service use. The purchased credit is used to pay for mobile phone services. If there is no available credit on the account then access to the requested service is denied by the mobile phone network provider. Users have the option to purchase credit at any time using a variety of payment mechanisms.

Consumer trends show that customers appear to be abandoning contract-based plans offered by major carriers such as AT&T, Verizon Wireless, Sprint and T-Mobile in favor of cheaper prepaid service plans. According to a recent Wall Street Journal article (see attached article) the average household spends just over \$100 a month on telephone service—last year spending on phone services rose more than 4% (the fastest rate since 2005).

As a result, the prepaid phone service market has been increasing steadily for several years (see attached article). In October of 2012, T-Mobile spent \$1.5 billion to merge with Metro PCS (who have 9.3 million prepaid subscribers). During the same month T-Mobile CFO, Michael Morgan was quoted as saying the "sweet spot for growth in our industry really is in the prepaid part of the market...."

## HB 2036 & 2415 PROVIDES TWO OPTIONS FOR PREPAID TAX COLLECTION

Section 2 of HB 2036 & 2415 allows prepaid telecommunications service providers to select from two different tax remittance options:

1. On a monthly basis, the prepaid service provider collects an amount equal to the tax (75-cents in Oregon) from each active prepaid customer whose account balance is equal to or greater than the tax.  
*\*Note: This method is referred to as the decrement approach.*
2. Calculate the tax by dividing the total intrastate monthly revenue by the average revenue for each prepaid customer of the industry to determine the number of prepaid customers. Apply the tax (75-cents in Oregon).

Example:

|   |           |
|---|-----------|
| Total Intrastate Revenue:               | \$100,000 |
| Average Revenue per Customer (industry) | ÷\$50.00  |
| Number of Prepaid Customers:            | =2,000    |
| State Tax:                              | x\$0.75   |
| Provider Remittance:                    | =\$1,500  |

*\*Note: This method is referred to as the ARPU (average revenue per user) method.*

The current tax makes up approximately 30% (on average) of a 9-1-1 center's operating budget (user fees and property taxes fund the remaining 70%). SDAO encourages the legislature to require all systems that are capable of accessing 9-1-1 services to pay the 75-cent surcharge that other landline and wireless consumers and businesses currently pay. Thank you for the opportunity to appear before you today

# Cellphones Are Eating the Family Budget

By ANTON TROIANOVSKI



Families across America have cut back on food, clothes and entertainment to make room for ever-higher phone bills. Now, carriers are betting that they can push that bill even higher, as Anton Troianovski explains on The News Hub. Photo: Bloomberg.

Heidi Steffen and her husband used to treat themselves most weeks to steak at Sodak Shores, a restaurant overlooking a lake near their hometown of Milbank, S.D. Then they each got an iPhone, and the rib-eyes started making fewer appearances.

"Every weekend, we'd do something," said Ms. Steffen, a registered nurse whose husband works at a tire shop. "Now maybe once every month or two, we get out."

More than half of all U.S. cellphone owners carry a device like the iPhone, a shift that has unsettled household budgets across the country. Government data show people have spent more on phone bills over the past four years, even as they have dialed back on dining out, clothes and entertainment—cutbacks that have been keenly felt in the restaurant, apparel and film industries.

The tug of war is only going to get more intense. Wireless carriers are betting they can pull bills even higher by offering faster speeds on expensive new networks and new usage-based data plans. The effort will test the limits of consumer spending as the draw of new technology competes with cellphone owners' more rudimentary needs and desires.

So far, telecom is winning. Labor Department data released Tuesday show spending on phone services rose more than 4% last year, the fastest rate since 2005. During and after the recession, consumers cut back broadly on their spending.

But as more people paid up for \$200 smartphones and bills that run around \$100 a month, the average household's annual spending on telephone services rose to \$1,226 in 2011 from \$1,110 in 2007, when Apple Inc.'s iPhone first appeared.

Families with more than one smartphone are already paying much more than the average—sometimes more than \$4,000 a year—easily eclipsing what they pay for cable TV and home Internet.

The trend has been a boon for companies like Verizon Wireless and AT&T Inc. U.S. wireless carriers brought in \$22 billion in revenue selling services such as mobile email and Web browsing in 2007, according to analysts at UBS AG. By 2011, data revenue had jumped to \$59 billion. By 2017, UBS expects carriers to be pulling in an additional \$50 billion a year.

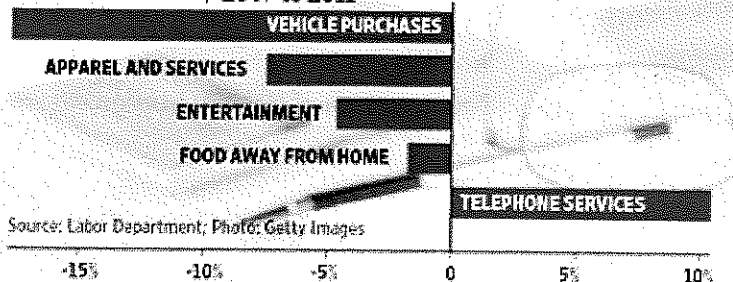
But the question for the industry is how much bigger bills can get before the cuts in other parts of the family budget grow too painful.

Melinda Tuers, an accounting clerk at a high school in Redlands, Calif., said she already pays close to \$300 a month for her family's four smartphones. She and her husband have cut back on dining out, special events and concerts to make room for the bigger phone bill.

Her household may soon have an even bigger hole to fill. Two of the Tuers's smartphones are on unlimited data plans, meaning she pays the same price no matter how much she surfs the Web. She has taken advantage of that freedom to watch TV shows such as "Covert Affairs" and "Grey's Anatomy" on her phone almost every day.



**Dialing Up** | Change in household spending by type, 2007 to 2011



Some Americans have given up their cellphones to cut back on living expenses, while others have traded in their high-cost wireless contracts for more-affordable prepaid service plans, Anton Troianovski reports on digits. Photo: Getty Images.

Ms. Tuers now wants to replace those three-year-old smartphones. But her carrier, Verizon, announced this summer that customers would have to give up unlimited data plans if they want to upgrade their phones at the subsidized price. Ms. Tuers figures that she and her husband would need to scrape together

more than \$1,000 to pay full price for two new high-end phones or settle for one of Verizon's tiered-data plans, which she fears would cost a lot more given her video habit.

Streaming 30 minutes of video per day over a 4G connection and doing nothing else on her phone would cost Ms. Tuers roughly \$120 a month on one of Verizon's new data plans, according to the carrier's website.

Carriers fully expect people to use more data and pay more for it. "Speed entices more usage," Verizon Chief Financial Officer Fran Shammo said at an investor conference last week, according to a transcript. "The more data they consume, the more they will have to buy."

But some question where the money for that data will come from. Americans spent \$116 more a year on telephone services in 2011 than they did in 2007, according to the Labor Department, even as total household expenditures increased by just \$67.

Meanwhile, spending on food away from home fell by \$48, apparel spending declined by \$141, and entertainment spending dropped by \$126. The figures aren't adjusted for inflation.

The increase in telephone-services spending masks an even higher rise in cellphone bills, because people have been paying less for landline service.

Much of the revenue growth that industry executives and investors are hoping for is likely to come from higher-income households that do have the money to spend more on wireless data. But the wireless industry also generates a lot of revenue from lower-income users.

Almost nine in 10 of all U.S. adults have a cellphone, according to a Pew Research Center survey. Middle-income consumers increased their telephone spending in 2011 by \$59, almost as much as the \$64 in additional telephone spending by the 20% of consumers with the highest incomes, according to the Labor Department data.

As wireless service gets more expensive, the trade-offs become more painful. That could threaten to further crimp consumer spending elsewhere—or slow the upward swing in consumer spending on wireless.

That trend is evident in the home of 40-year-old Scott Boedy, a neighborhood service representative for a cable company.

Mr. Boedy said he and his wife now pay \$200 a month for cellphone service, up by about \$50 from early last year, even as they have managed to cut spending on groceries by shopping at discount chain Aldi and on "fun stuff" by going out to dinner and movies less often.

Looking over the family budget on Sunday night, Mr. Boedy said, his wife marveled at how much of it was going to the phone company. "It stinks," Mr. Boedy said. "I guess it's the cost of modern-day America now."

# Prepaid Wireless Users in U.S. Top 100 Million, Report Says

BY OLGA KHARIF | AUG. 13, 2012 6:13 PM EDT



Photograph by Daniel Acker/Bloomberg

Prepaid mobile phone products sit on display at a Family Dollar Stores Inc. location in Sterling, Illinois.

As the economy continued to sputter, the number of prepaid wireless services users in the U.S. topped 100 million for the first time in the second quarter, according to a report from analyst Chetan Sharma. The prepaid sector — where customers don't have to sign contracts with carriers — grew 12 percent compared with a year ago, he said.

Other parts of the mobile services industry rallied as well. Although it's much larger now, the market for wireless data is growing at almost the same pace as a year ago. Revenues from U.S. mobile data services grew 19 percent to \$19.3 billion in the second quarter, compared with \$16.2 billion a year ago. Back then, the market had grown 22 percent from the previous year.

U.S. carriers added almost 400,000 postpaid subscribers, largely due to Verizon Wireless. The connected devices segment, which includes tablets and electric meters connected to wireless services, grew 21 percent year over year.



## Position Statement

### 9-1-1 Consolidation, Prepaid Cell Phones, Emergency Communications Tax Extension & Diversion of 9-1-1 Funds

*Subject to revision. March 13, 2013*

We represent the managers, operators, and users of the 9-1-1 system that helps insure the safety of Oregon's citizens on a daily basis.

We see the need for increased funding for 9-1-1 services; funding has not kept up with needs and has placed a stress on the system that is detrimental to individuals in need. Oregon is one of 7 states that decided to divert 9-1-1 funds in order to pay for budget shortfalls. We believe that 9-1-1 collected funds should be dedicated solely to the 9-1-1 system for the protection of the citizens of this state. Diminishing these Emergency Communications Tax Funds away from their stated purpose will create an increasingly unstable 9-1-1 system at the local level and may ultimately jeopardize the integrity of the entire emergency response system.

We support the extension of the current Emergency Communications Tax (the "9-1-1 Tax") at the \$.75 per month level, which is assessed currently. Filed legislative concepts call for the extension of this tax through January 2026 and clarify the inclusion of pre-paid cellular devices under this statute. The Oregon Department of Justice, Legislative Counsel and the Oregon Department of Revenue concur that pre-paid cellular devices are included in the Emergency Communications Tax and collection of those funds should begin immediately in order to support the 9-1-1 system that is being utilized on behalf of those consumers on a daily basis. We support these legislative concepts and the overall strengthening of the 9-1-1 system via extension and clarification of the Emergency Communications Tax for the benefit and safety of all Oregonians.